

VILLAGE OF NORTH ADAMS

AUDIT REPORT

FEBRUARY 28, 2006

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name VILLAGE OF NORTH ADAMS	County HILLSDALE
Fiscal Year End 02/28/06	Opinion Date 09/08/06	Date Audit Report Submitted to State 09/30/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

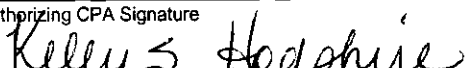
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	NO OTHER REPORTS REQUIRED	
Certified Public Accountant (Firm Name) BAILEY, HODSHIRE & COMPANY, P.C.		Telephone Number 517-849-2410	
Street Address 479 E. CHICHAGO STREET		City JONESVILLE	State MI
		Zip 49250	
Authorizing CPA Signature 		Printed Name KELLY S. HODSHIRE	
		License Number 1101020992	

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# Bailey, Hodshire & Company, P.C.

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## INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of North Adams  
North Adams, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of North Adams, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of North Adams's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of North Adams, as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006, on our consideration of Village of North Adams's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Village Council  
Village of North Adams

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 25 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Bailey Hodshie & Company P.C.*

Jonesville, Michigan  
September 8, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Village of North Adams, Michigan  
Management's Discussion and Analysis (MD&A)  
For the year ended February 28, 2006

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This section of the Village of North Adams' annual financial report presents our discussion and analysis of the Village's financial performance during the fiscal year ended February 28, 2006. Please read it in conjunction with the Village's financial statements which follow this section.

**Financial Highlights**

- Net assets is the amount by which the Village's assets exceeded its liabilities. Net assets totaled \$2,476,296 at February 28, 2006. The unrestricted portion of this amount, \$575,283 (24 percent), is available to be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets increased by \$3,323 (.1 percent) as a result of this year's activities. Net assets of the governmental and business-type activities increased by \$2,147 and \$1,176, respectively.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$386,681, which represents 216 percent of the actual General Fund expenditures for the current year.

**Overview of the Financial Statements**

The Village's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents additional information. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Village, reporting the Village's operations in more detail than the government-wide financial statements.

Governmental fund statements tell how general government services were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**Government-wide Financial Statements**

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by the private-sector companies.

*Statement of Net Assets* - This statement presents information of all of the Village's assets and liabilities, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the Village's financial position as a whole is improving or deteriorating. To assess the overall health of the Village you need to consider additional non-financial factors such as changes in the Village's property tax base and the condition of the Village's capital assets.

Village of North Adams, Michigan  
Management's Discussion and Analysis (MD&A)  
For the year ended February 28, 2006

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*Statement of Activities* - This reports how the Village's net assets changed during the fiscal year. All current year revenues and expenses are included regardless of when the cash is received or paid. An important purpose of this statement is to show the financial reliance of the Village's distinct activities or functions on revenues provided by the taxpayers.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Village's basic services are included here, such as fire protection, general government, and streets. Property taxes and state shared revenue finance most of these activities.
- *Business-type activities* - The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's sewer system is reported here.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required by State law. The Village Council also establishes other funds to control and manage money for particular purposes (like street maintenance) to show that it is properly using certain revenues (like state grants collected for the street funds). All of the Village's funds can be divided into two categories: governmental funds and proprietary funds.

*Governmental Funds* - Most of the Village's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in a reconciling statement that explains the relationship between them.

Budgetary comparison statements are included as required supplementary information for the general fund and major special revenue funds. These statements and schedules demonstrate compliance with the Village's adopted and final revised budget.

*Proprietary Funds* generally report services for which the Village charges customers a fee. There are two types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise Funds are used to report functions presented as business-type activities, while Internal Service Funds primarily service the governmental unit and are included with governmental activities. The Sewer Fund is an Enterprise Fund. The Village does not have an Internal Service Fund. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Village's enterprise funds are the same as its business-type activities but provide more detail and additional information, such as cash flows.

*Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

*Required Supplementary Information* can be found immediately following the notes to the financial statements. This information includes budgets and actual statements for major governmental funds.



Village of North Adams, Michigan  
Management's Discussion and Analysis (MD&A)  
For the year ended February 28, 2006

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Village's financial position. The Village's assets exceeded its liabilities by \$2,476,296 (net assets) at the close of this fiscal year. Net assets at the beginning of the fiscal year totaled \$2,472,973, showing an increase of \$3,323 over the prior year. While the Village reports unrestricted net assets under both governmental and business-type activities, the unrestricted net assets of the business-type activities cannot be used to make up any net asset deficit in governmental activities. The following table provides a summary of the Village's net assets as of the end of the year:

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Assets						
Current Assets	\$ 393,705	\$ 425,115	\$ 486,566	\$ 484,371	\$ 880,271	\$ 909,486
Capital Assets	<u>628,256</u>	<u>595,028</u>	<u>1,688,624</u>	<u>1,616,972</u>	<u>2,316,880</u>	<u>2,212,000</u>
Total Assets	<u>\$ 1,021,961</u>	<u>\$ 1,020,143</u>	<u>\$ 2,175,190</u>	<u>\$ 2,101,343</u>	<u>\$ 3,197,151</u>	<u>\$ 3,121,486</u>
Liabilities						
Current Liabilities	\$ 6,865	\$ 2,900	\$ 27,313	\$ 17,290	\$ 34,178	\$ 20,190
Long-term Liabilities	<u>0</u>	<u>0</u>	<u>690,000</u>	<u>625,000</u>	<u>690,000</u>	<u>625,000</u>
Total Liabilities	<u>\$ 6,865</u>	<u>\$ 2,900</u>	<u>\$ 717,313</u>	<u>\$ 642,290</u>	<u>\$ 724,178</u>	<u>\$ 645,190</u>
Net Assets						
Invested in Capital Assets, Net of Debt	\$ 628,256	\$ 595,028	\$ 998,624	\$ 991,972	\$ 1,626,880	\$ 1,587,000
Restricted	0	0	308,276	314,013	308,276	314,013
Unrestricted	<u>386,840</u>	<u>422,215</u>	<u>150,977</u>	<u>153,068</u>	<u>537,817</u>	<u>575,283</u>
Total Net Assets	<u>\$ 1,015,096</u>	<u>\$ 1,017,243</u>	<u>\$ 1,457,877</u>	<u>\$ 1,459,053</u>	<u>\$ 2,472,973</u>	<u>\$ 2,476,296</u>
Total Liabilities and Net Assets	<u>\$ 1,021,961</u>	<u>\$ 1,020,143</u>	<u>\$ 2,175,190</u>	<u>\$ 2,101,343</u>	<u>\$ 3,197,151</u>	<u>\$ 3,121,486</u>

The Village reported positive balances in net assets for both governmental and business-type activities. Net assets increased \$2,147 for governmental activities and \$1,176 for business-type activities; therefore, the Village's overall financial position improved slightly during fiscal year 2006.

The following table reflects the change in net assets of the Village's governmental and business-type activities for the year ended February 28, 2006:

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Program Revenues						
Charges for Services	\$ 46,796	\$ 51,681	\$ 126,961	\$ 123,347	\$ 173,757	\$ 175,028
Operating Grants and Contributions	42,699	41,179	0	0	42,699	41,179
Capital Grants and Contributions	1,099	0	0	0	1,099	0
General Revenues						
Property Taxes - general purposes	70,152	73,490	0	0	70,152	73,490
State Shared Revenue	51,418	50,889	0	0	51,418	50,889
Unrestricted Investment Earnings	8,687	12,054	4,110	8,116	12,797	20,170
Other Revenue	<u>1,347</u>	<u>2,704</u>	<u>1,156</u>	<u>2,277</u>	<u>2,503</u>	<u>4,981</u>
Total Revenue	<u>\$ 222,198</u>	<u>\$ 231,997</u>	<u>\$ 132,227</u>	<u>\$ 133,740</u>	<u>\$ 354,425</u>	<u>\$ 365,737</u>

Village of North Adams, Michigan  
Management's Discussion and Analysis (MD&A)  
For the year ended February 28, 2006

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Program Expenses						
General Government	\$ 81,103	\$ 92,099	\$ 0	\$ 0	\$ 81,103	\$ 92,099
Public Safety	10,030	10,802	0	0	10,030	10,802
Streets and Highways	91,738	38,853	0	0	91,738	38,853
Culture and Recreation	2,600	3,025	0	0	2,600	3,025
Depreciation	34,278	33,228	0	0	34,278	33,228
Public Works	49,504	48,786	0	0	49,504	48,786
Sanitary Landfill	4,414	3,057	0	0	4,414	3,057
Sewer Utility	0	0	147,203	132,564	147,203	132,564
Total Expenses	\$ 273,667	\$ 229,850	\$ 147,203	\$ 132,564	\$ 420,870	\$ 362,414
Change in Net Assets	\$ (51,469)	\$ 2,147	\$ (14,976)	\$ 1,176	\$ (66,445)	\$ 3,323

*Governmental Activities* increased the Village's net assets by \$2,147, which accounts for 65% of the total increase in net assets.

Revenues from governmental activities totaled \$231,997. Property tax revenue represented the largest portion of those revenues (32%), and state shared revenue represented 22% of the total.

The largest components of governmental activities' expenses were public works (22%) and street lighting and maintenance (17%). General government consists of Village Council, administration, fire protection, recreation and culture.

*Business-type Activities* increased the Village's net assets by \$1,176, or 35% of the total increase in net assets. These net assets will be used to repay the debt on the sewer plant improvements, as well as planning for future improvements in the sewer system.

*Governmental Funds* - The focus of the Village's governmental funds is to provide information on short-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of February 28, 2006, the Village's governmental funds reported combined ending fund balances of \$422,215. Of this total, approximately 92% was unreserved, indicating availability for continuing Village service requirements.

The General Fund is the primary operating fund of the Village. At the end of the current fiscal year, the General Fund showed a healthy fund balance of \$386,681. The other Major Governmental Funds include Major Streets and Local Streets. Both funds had an increase in fund balances of \$16,931 for the Major Streets Fund and \$6,140 for the Local Streets Fund.

*Proprietary Funds* - The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. The Village's proprietary funds consist of the Sewer Fund. Total net assets of the Sewer Fund was \$1,459,053 at February 28, 2006, an increase of \$1,176 from the previous fiscal year.

**Major Governmental Funds Budgeting and Operating Highlights**

The Village did not amend the budget during the current fiscal year. Some reasons for differences between the budget adopted and actual expenditure are as follows: Public Works wages and property insurance were higher than expected.

Village of North Adams, Michigan  
Management's Discussion and Analysis (MD&A)  
For the year ended February 28, 2006

**Capital Asset and Debt Administration**

Capital assets at year-end were as follows:

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Land	\$ 35,000	\$ 35,000	\$ 35,062	\$ 35,062	\$ 70,062	\$ 70,062
Building and Improvements	164,500	164,500	0	0	164,500	164,500
Facilities and Mains	0	0	2,436,785	2,436,785	2,436,785	2,436,785
Furniture and Equipment	171,850	171,850	16,700	16,700	188,550	188,550
Vehicles	605,541	599,041	0	0	605,541	599,041
Less: Accumulated Depreciation	<u>(348,635)</u>	<u>(375,363)</u>	<u>(799,923)</u>	<u>(871,575)</u>	<u>(1,148,558)</u>	<u>(1,246,938)</u>
Total Capital Assets, net of depreciation	<u>\$ 628,256</u>	<u>\$ 595,028</u>	<u>\$ 1,688,624</u>	<u>\$ 1,616,972</u>	<u>\$ 2,316,880</u>	<u>\$ 2,212,000</u>

At February 28, 2006, the Village had \$625,000 in bonds outstanding, as shown below:

	Governmental Activities	Business-type Activities	Totals
Revenue Bonds	\$ 0	\$ 625,000	\$ 625,000
Total Long-Term Debt	<u>\$ 0</u>	<u>\$ 625,000</u>	<u>\$ 625,000</u>

**Factors Bearing on the Village's Future**

The Village expects similar levels of revenue and expenditures for the 2007 fiscal year except that State shared revenues have consistently declined in recent years, and this trend is expected to continue.

The national economic downturn and market performance continue to be a concern for Village management. We continue to depend on state revenue sharing and investment income as major funding sources for the Village. As the state cuts our revenue, we will continue to strive to cut expenditures. Improved monitoring of monthly revenue and expenditures will enable the Village Council to make more informed financial decisions. Insurance coverages are being monitored for adequate coverage and possible reductions in premiums. During the 2007 and 2008 fiscal years repair work to trees and sidewalks is planned.

**Contacting the Village's Financial Management**

This financial report is designed to provide a general overview of the Village of North Adams' finances. Questions or comments concerning any of the information provided in this report should be addressed to Village of North Adams, 129 W. Main Street, North Adams, Michigan 49262.

## BASIC FINANCIAL STATEMENTS

VILLAGE OF NORTH ADAMS  
STATEMENT OF NET ASSETS  
FEBRUARY 28, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 386,742	\$ 455,596	\$ 842,338
Accounts Receivable	3,288	17,293	20,581
Taxes Receivable	10,377	0	10,377
Due from Other Governmental Units	16,080	0	16,080
Delinquent Assessments Receivable	0	11,482	11,482
Prepaid Expense	<u>8,628</u>	<u>0</u>	<u>8,628</u>
Total Current Assets	<u>\$ 425,115</u>	<u>\$ 484,371</u>	<u>\$ 909,486</u>
Noncurrent Assets			
Capital Assets			
Land	\$ 35,000	\$ 35,062	\$ 70,062
Buildings & Improvements	164,500	0	164,500
Facilities & Mains	0	2,436,785	2,436,785
Furniture & Equipment	171,850	16,700	188,550
Vehicles	599,041	0	599,041
Less: Accumulated Depreciation	<u>(375,363)</u>	<u>(871,575)</u>	<u>(1,246,938)</u>
Total Noncurrent Assets	<u>\$ 595,028</u>	<u>\$ 1,616,972</u>	<u>\$ 2,212,000</u>
Total Assets	<u>\$ 1,020,143</u>	<u>\$ 2,101,343</u>	<u>\$ 3,121,486</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	\$ 1,795	\$ 5,050	\$ 6,845
Payroll Taxes Payable	1,105	0	1,105
Interest Payable	0	12,240	12,240
Current Portion of Long-Term Debt	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 2,900</u>	<u>\$ 17,290</u>	<u>\$ 20,190</u>
Noncurrent Liabilities			
Revenue Bonds Payable	<u>\$ 0</u>	<u>\$ 625,000</u>	<u>\$ 625,000</u>
Total Liabilities	<u>\$ 2,900</u>	<u>\$ 642,290</u>	<u>\$ 645,190</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	\$ 595,028	\$ 991,972	\$ 1,587,000
Restricted for:			
Replacement	0	1,300	1,300
Improvement	0	312,713	312,713
Unrestricted	<u>422,215</u>	<u>153,068</u>	<u>575,283</u>
Total Net Assets	<u>\$ 1,017,243</u>	<u>\$ 1,459,053</u>	<u>\$ 2,476,296</u>
Total Liabilities and Net Assets	<u>\$ 1,020,143</u>	<u>\$ 2,101,343</u>	<u>\$ 3,121,486</u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Village Council	\$ 4,600	\$ 0	\$ 0	\$ 0	\$ (4,600)
Clerk	4,200	0	0	0	(4,200)
Treasurer	2,800	0	0	0	(2,800)
Contracted Services	10,010	0	0	0	(10,010)
Buildings and Grounds	16,190	0	0	0	(16,190)
Office Supplies and Postage	1,988	0	0	0	(1,988)
Fire Department	10,802	32,699	0	0	21,897
Public Works	48,786	0	0	0	(48,786)
Street Lighting and Maintenance	38,853	18,982	41,179	0	21,308
Sanitary Landfill	3,057	0	0	0	(3,057)
Recreation and Culture	3,025	0	0	0	(3,025)
Publishing	132	0	0	0	(132)
Payroll Tax Expense	4,706	0	0	0	(4,706)
Dues and Subscriptions	1,132	0	0	0	(1,132)
Insurance - Property	31,429	0	0	0	(31,429)
Insurance - Health and Life	14,267	0	0	0	(14,267)
Miscellaneous Expense	645	0	0	0	(645)
Depreciation - Unallocated	33,228	0	0	0	(33,228)
Total Governmental Activities	\$ 229,850	\$ 51,681	\$ 41,179	\$ 0	\$ (136,990)
Business-type Activities:					
Sewer	\$ 132,564	\$ 123,347	\$ 0	\$ 0	\$ (9,217)
Total Business-type Activities	\$ 132,564	\$ 123,347	\$ 0	\$ 0	\$ (9,217)
Total Primary Government	\$ 362,414	\$ 175,028	\$ 41,179	\$ 0	\$ (146,207)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Change in Net Assets:			
Net (Expense) Revenue	\$ (136,990)	\$ (9,217)	\$ (146,207)
General Revenue:			
Property Taxes Levied for General Purposes	\$ 73,490	\$ 0	\$ 73,490
State Shared Revenue	50,889	0	50,889
Unrestricted Investment Income	12,054	8,116	20,170
Miscellaneous	2,704	2,277	4,981
Total General Revenue	\$ 139,137	\$ 10,393	\$ 149,530
Change in Net Assets	\$ 2,147	\$ 1,176	\$ 3,323
Net Assets - Beginning	1,015,096	1,457,877	2,472,973
Net Assets - Ending	\$1,017,243	\$1,459,053	\$2,476,296

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
FEBRUARY 28, 2006

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash	\$ 375,549	\$ (7,540)	\$ 18,733	\$ 386,742
Taxes Receivable	10,377	0	0	10,377
Due from Other Funds	8,136	21,759	0	29,895
Due from Other Governmental Units	8,650	5,863	1,567	16,080
Prepaid Expense	<u>8,628</u>	<u>0</u>	<u>0</u>	<u>8,628</u>
Total Assets	<u>\$ 411,340</u>	<u>\$ 20,082</u>	<u>\$ 20,300</u>	<u>\$ 451,722</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,795	\$ 0	\$ 0	\$ 1,795
Due to Other Funds	21,759	0	4,848	26,607
Payroll Taxes Payable	<u>1,105</u>	<u>0</u>	<u>0</u>	<u>1,105</u>
Total Liabilities	<u>\$ 24,659</u>	<u>\$ 0</u>	<u>\$ 4,848</u>	<u>\$ 29,507</u>
<b>FUND BALANCES</b>				
Unreserved, reported in:				
General Fund	\$ 386,681	\$ 0	\$ 0	\$ 386,681
Special Revenue Funds	<u>0</u>	<u>20,082</u>	<u>15,452</u>	<u>35,534</u>
Total Fund Balances	<u>\$ 386,681</u>	<u>\$ 20,082</u>	<u>\$ 15,452</u>	<u>\$ 422,215</u>
Total Liabilities and Fund Balances	<u>\$ 411,340</u>	<u>\$ 20,082</u>	<u>\$ 20,300</u>	<u>\$ 451,722</u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS  
Reconciliation of Fund Balances on the Balance Sheet  
for Governmental Funds to Net Assets of  
Governmental Activities on the Statement of Net Assets  
February 28, 2006

Fund Balances - total governmental funds	\$ 422,215
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds.

Add: Capital assets	970,391
Deduct: Accumulated depreciation	<u>(375,363)</u>

Net assets of governmental activities	<u>\$ 1,017,243</u>
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The accompanying notes are an integral part of this statement.



VILLAGE OF NORTH ADAMS  
STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2006

	General	Major Streets	Local Streets	Total Governmental Funds
REVENUE				
Property Taxes	\$ 73,490	\$ 0	\$ 0	\$ 73,490
State Shared Revenue	50,889	32,495	8,684	92,068
Fire Service	32,699	0	0	32,699
Rents and Royalties	18,982	0	0	18,982
Interest	11,826	171	57	12,054
Miscellaneous Income	<u>2,704</u>	<u>0</u>	<u>0</u>	<u>2,704</u>
Total Revenue	<u>\$ 190,590</u>	<u>\$ 32,666</u>	<u>\$ 8,741</u>	<u>\$ 231,997</u>
EXPENDITURES				
General Government				
Village Council	\$ 4,600	\$ 0	\$ 0	\$ 4,600
Clerk	4,200	0	0	4,200
Treasurer	2,800	0	0	2,800
Contracted Services	10,010	0	0	10,010
Building and Grounds	16,190	0	0	16,190
Office Supplies and Postage	1,988	0	0	1,988
Fire Department	10,802	0	0	10,802
Public Works	48,786	0	0	48,786
Street Lighting and Maintenance	20,517	15,735	2,601	38,853
Sanitary Landfill	3,057	0	0	3,057
Recreation and Culture	3,025	0	0	3,025
Publishing	132	0	0	132
Payroll Tax Expense	4,706	0	0	4,706
Dues and Subscriptions	1,132	0	0	1,132
Insurance - Property	31,429	0	0	31,429
Insurance - Health and Life	14,267	0	0	14,267
Capital Outlay	0	0	0	0
Miscellaneous Expense	<u>645</u>	<u>0</u>	<u>0</u>	<u>645</u>
Total Expenditures	<u>\$ 178,286</u>	<u>\$ 15,735</u>	<u>\$ 2,601</u>	<u>\$ 196,622</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 12,304</u>	<u>\$ 16,931</u>	<u>\$ 6,140</u>	<u>\$ 35,375</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ 0	\$ 0	\$ 0	\$ 0
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCES	<u>\$ 12,304</u>	<u>\$ 16,931</u>	<u>\$ 6,140</u>	<u>\$ 35,375</u>
FUND BALANCES - Beginning	<u>374,377</u>	<u>3,151</u>	<u>9,312</u>	<u>386,840</u>
FUND BALANCES - Ending	<u>\$ 386,681</u>	<u>\$ 20,082</u>	<u>\$ 15,452</u>	<u>\$ 422,215</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS  
Reconciliation of Statement of Revenue, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended February 28, 2006

Net changes in fund balances - total governmental funds	\$ 35,375
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital outlay	0
Deduct: Depreciation expense	<u>(33,228)</u>

Change in net assets of governmental activities	<u><u>\$ 2,147</u></u>
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The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
FEBRUARY 28, 2006

	<u>Enterprise Funds</u> <u>Sewer</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 141,538
Accounts Receivable	17,293
Delinquent Assessments Receivable	<u>11,482</u>
Total Current Assets	<u>\$ 170,313</u>
Restricted Assets	
Debt Retirement Account	\$ 45
Improvement Account	312,713
Replacement Accounts	<u>1,300</u>
Total Restricted Assets	<u>\$ 314,058</u>
Noncurrent Assets	
Capital Assets - Not Depreciated	\$ 35,062
Other Capital Assets, Net of Accumulated Depreciation	<u>1,581,910</u>
Total Noncurrent Assets	<u>\$ 1,616,972</u>
Total Assets	<u><u>\$ 2,101,343</u></u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 1,762
Due to Other Funds	<u>3,288</u>
Total Current Liabilities	<u>\$ 5,050</u>
Liabilities Payable from Restricted Assets	
Accrued Interest Payable	\$ 12,240
Revenue Bonds - Current	<u>0</u>
Total Liabilities Payable from Restricted Assets	<u>\$ 12,240</u>
Noncurrent Liabilities	
Revenue Bonds Payable	<u>\$ 625,000</u>
Total Noncurrent Liabilities	<u>\$ 625,000</u>
Total Liabilities	<u>\$ 642,290</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 991,972
Restricted for Improvements	312,713
Restricted for Replacement	1,300
Unrestricted	<u>153,068</u>
Total Net Assets	<u>\$ 1,459,053</u>
Total Liabilities and Net Assets	<u><u>\$ 2,101,343</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006

	<u>Enterprise Fund</u> <u>Sewer</u>
OPERATING REVENUE	\$ 81,996
Sales	41,351
Connections Fees	<u>2,277</u>
Other	<u>\$ 125,624</u>
Total Operating Revenue	
OPERATING EXPENSES	\$ 4,031
Repairs and Maintenance	8,444
Wages	514
Insurance	5,653
Utilities	2,730
Legal and Accounting Fees	23
Dues and Subscriptions	71,652
Depreciation	642
Payroll Taxes	<u>381</u>
Miscellaneous Expense	<u>\$ 94,070</u>
Total Operating Expenses	
OPERATING INCOME (LOSS)	<u>\$ 31,554</u>
NON-OPERATING REVENUE (EXPENSES)	\$ 8,116
Interest Income	<u>(38,494)</u>
Interest Expense	<u>\$ (30,378)</u>
Total Non-operating Revenue (Expense)	
Income (Loss) Before Contributions and Transfers	<u>\$ 1,176</u>
Transfers From Other Funds	\$ 0
Transfers To Other Funds	<u>0</u>
CHANGE IN NET ASSETS	\$ 1,176
NET ASSETS - Beginning	<u>1,457,877</u>
NET ASSETS - Ending	<u>\$1,459,053</u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006

	<u>Enterprise Fund</u> <u>Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 118,822
Cash payments to suppliers for goods and services	(31,163)
Other operating revenue	<u>2,277</u>
Net cash provided (used) by operating activities	<u>\$ 89,936</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	\$ 0
Principal paid on bonds	(65,000)
Interest paid on bonds	<u>(39,767)</u>
Net cash provided (used) by capital and related financing activities	<u>\$(104,767)</u>
<b>CASH FLOWS FORM INVESTING ACTIVITIES</b>	
Investment income	<u>\$ 8,116</u>
Net cash provided (used) by investment activities	<u>\$ 8,116</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	\$ (6,715)
<b>CASH AND CASH EQUIVALENTS - Beginning</b>	<u>462,311</u>
<b>CASH AND CASH EQUIVALENTS - Ending</b>	<u><u>\$ 455,596</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income (loss)	<u>\$ 31,554</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	\$ 71,652
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(3,524)
(Increase) decrease in delinquent assessments receivable	(996)
Increase (decrease) in accounts payable	(10,122)
Increase (decrease) in due to other funds	<u>1,372</u>
Total adjustments	<u>\$ 58,382</u>
Net cash provided (used) by operating activities	<u><u>\$ 89,936</u></u>

See accompanying notes to the basic financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

VILLAGE OF NORTH ADAMS  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of North Adams comprises a population of approximately 514 residents in Hillsdale County, Michigan. It is governed by a seven-member council with a president as its head. As required by generally accepted accounting principles, these financial statements present the Village's primary government.

The following is a summary of significant accounting policies used by Village of North Adams:

**Reporting Entity**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Village consists of all funds, departments, boards and agencies that are not legally separate from the Village.

Component units are legally separate organizations for which the Village is financial accountable. Component units may also include organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt, or the levying of taxes. The Village has no component units.

**Government-Wide and Fund Financial Statements**

Government-Wide Financial Statements - The statement of net assets and the statement of activities display financial information about the Village as a whole, excluding fiduciary activities. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by property taxes and Village general revenue, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Village's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, State Revenue Sharing, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Village.

Fund Financial Statements - Fund financial statements report detailed information about the Village. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

**Measurement Focus and Basis of Accounting**

The financial statements of the Village are prepared in accordance with generally accepted accounting principles (GAAP). The Village applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Village does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting including the reclassification or elimination of internal activity (between

VILLAGE OF NORTH ADAMS  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

or within funds). However, internal eliminations do not include utility services provided to Village departments. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, property taxes, State revenue sharing, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Operating income reported in proprietary fund financial statements includes revenue and expenses related to the primary, continuing operations of the fund. Principal operating revenue for proprietary funds is charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenue and expenses are classified as non-operating in the financial statements.

**Financial Statement Presentation**

The Village uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Village functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Village reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Special Revenue Funds - used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes (i.e. Major Streets and Local Streets).

The Village reports the following major enterprise fund:

Sewer Utilities Fund - accounts for the operating activities of the Village's sewer utilities services.



VILLAGE OF NORTH ADAMS  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Assets, Liabilities, and Net Assets**

**Bank Deposits and Investments** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

**Capital Assets** - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Proprietary fund capital assets are also reported in their respective fund and component unit financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Village maintains a capitalization threshold of \$1,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & Improvements	20 - 50 years
Furniture & Equipment	5 - 20 years
Vehicles	8 years

**Interfund Balances** - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

**Long-Term Obligations** - In the government-wide financial statements, all payables, accrued liabilities and long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt retirement expenditures.

**Fund Balance** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Interfund Activity** - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

VILLAGE OF NORTH ADAMS  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information** - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Village Council at the line-item level. Any budgetary modifications may only be made by resolution of the Village Council. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to February 28, the Village Council proposes an operating budget for the fiscal year commencing on March 1.
- 2) A public hearing is conducted during February to obtain taxpayer comments.
- 3) Prior to February 28, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the Village, transfer of appropriations may be made by the authorization of the Village Council.
- 5) The Village Council is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

During the year ended February 28, 2006, the Village incurred expenditures in certain budgetary funds that were in excess of the amount appropriated. These variances are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Contracted Services	\$ 7,500	\$ 10,010	\$ 2,510
Public Works	30,000	48,786	18,786
Street Lighting & Maintenance	20,000	20,517	517
Dues and Subscriptions	500	1,132	632
Insurance - Property	28,000	31,429	429
Local Streets Fund			
Routine Maintenance	0	147	147
Winter Maintenance	0	2,454	2,454

**NOTE 3 - DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended), authorizes the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. As of February 28, 2006, the Village's deposits are in accordance with statutory authority.

VILLAGE OF NORTH ADAMS  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006

**NOTE 3 - DEPOSITS AND INVESTMENTS (continued)**

**Deposits**

Following are the components of the Village's bank deposits at February 28, 2006:

Checking and savings accounts	\$ 535,926
Certificates of Deposit	<u>306,317</u>
	<u>\$ 842,243</u>

Custodial credit risk of deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At February 28, 2006, the carrying amount of the Village's deposits was \$842,243 and the bank balance was \$844,290. Of the bank balance, \$206,620 was covered by federal depository insurance and \$637,670 was uninsured. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**Investments**

Following are the components of the Village's investments at February 28, 2006:

Money market fund	<u>\$ 96</u>
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As of February 28, 2006, investments were limited to a money market fund at Prime Vest Financial Services. This fund is not rated by any of the nationally recognized statistical rating organizations.

**NOTE 4 - RECEIVABLES**

Receivables at February 28, 2006, consist of State revenue sharing, utility and other receivables. All receivables are considered collectible in full due to the ability to lien for the nonpayment of utility bills and the stable condition of State programs.

A summary of the principal items of receivables follows:

	<u>General Fund</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Proprietary Funds</u>	<u>Total</u>
State Revenue Sharing	\$ 8,650	\$ 5,863	\$ 1,567	\$ 0	\$ 16,080
Utility Customers	0	0	0	28,775	28,775
Other Receivables	<u>10,377</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,377</u>
Total	<u>\$ 19,027</u>	<u>\$ 5,863</u>	<u>\$ 1,567</u>	<u>\$ 28,775</u>	<u>\$ 55,232</u>

**NOTE 5 - RESTRICTED ASSETS**

Certain assets in the Sewer Fund are set aside and classified as restricted on the balance sheet because their use is limited by applicable bond covenants. The replacement and improvement accounts are used to segregate resources accumulated for further improvements, enlargements, and extensions of the project. The debt retirement account is used to account for resources to be used solely for the purpose of paying principal and interest on the bond when due.

VILLAGE OF NORTH ADAMS  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended February 28, 2006, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b><u>Governmental Activities</u></b>				
Capital assets not being depreciated				
Land	\$ 35,000	\$ 0	\$ 0	\$ 35,000
Capital assets being depreciated				
Buildings & Improvements	\$ 164,500	\$ 0	\$ 0	\$ 164,500
Furniture & Equipment	171,850	0	0	171,850
Vehicles	605,541	0	(6,500)	599,041
Less accumulated depreciation	(348,635)	(33,228)	6,500	(375,363)
Total capital assets being depreciated, net	\$ 593,256	\$ (33,228)	\$ 0	\$ 560,028
Governmental Activities Total capital assets, net	\$ 628,256	\$ (33,228)	\$ 0	\$ 595,028
<b><u>Business-Type Activities</u></b>				
Capital assets not being depreciated				
Land	\$ 35,062	\$ 0	\$ 0	\$ 35,062
Capital assets being depreciated				
Facilities & Mains	\$ 2,436,785	\$ 0	\$ 0	\$ 2,436,785
Machinery and Equipment	16,700	0	0	16,700
Less accumulated depreciation	(799,923)	(71,652)	0	(871,575)
Total capital assets being depreciated, net	\$ 1,653,562	\$ (71,652)	\$ 0	\$ 1,581,910
Business-Type Activities Total capital assets, net	\$ 1,688,624	\$ (71,652)	\$ 0	\$ 1,616,972
<b>PRIMARY GOVERNMENT</b>				
Total capital assets, net	\$ 2,316,880	\$ (104,880)	\$ 0	\$ 2,212,000

**NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances at February 28, 2006, is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 4,848	Local Streets	\$ 4,848
General Fund	3,288	Sewer Fund	3,288
Major Streets	<u>21,759</u>	General Fund	<u>21,759</u>
	<u>\$ 29,895</u>		<u>\$ 29,895</u>

The Local Streets Fund owes the General Fund for equipment rentals. The Sewer Fund owes the General Fund for payroll taxes on Sewer Fund wages paid by the General Fund. The amount due from General Fund to Major Streets is for an outstanding transfer net of equipment rentals due at February 28, 2006.

VILLAGE OF NORTH ADAMS  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006

**NOTE 8 - LONG-TERM DEBT**

Revenue Bonds - The Village has a bond issue with Farmers Home Administration, an agency of the United States Department of Natural Resources. This is a revenue bond issue, whereby revenue derived from the utility system is used to pay the debt service.

The following is a summary of changes in long-term debt for the year ended February 28, 2006:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Business-type Activities</i>				
Revenue Bonds - Sewer Fund	\$ 690,000	\$ 0	\$ 65,000	\$ 625,000

Annual debt service requirements to maturity as of February 28, 2006, are as follows:

Sewer Fund - \$ 1,192,000 Revenue Bond Issue, interest rate 5.875%

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>February 28</u>			
2007 *	\$ 0	\$ 0	\$ 0
2008 *	0	0	0
2009 *	0	0	0
2010 *	0	0	0
2011	25,000	36,718	61,718
2012-2016	255,000	146,875	401,875
2017-2021	285,000	68,738	353,738
2022	<u>60,000</u>	<u>3,525</u>	<u>63,525</u>
Totals	\$ 625,000	\$ 255,856	\$ 880,856

\* There are no required payments in these years because the Village has made advance payments.

**NOTE 9 - PROPERTY TAXES**

Real estate and personal property taxes are recorded as revenue in amounts equal to the total taxes levied. The total levy for 2005 was 1.09 mills, all allocated to General Fund. The 2005 total state taxable value was approximately \$6,694,000. Village properties are assessed as of July 31 (the lien date) - taxes levied July 1 of the succeeding year and are due without interest to September 15. After the final collection date, unpaid real property taxes are added to the county delinquent tax rolls. Personal property taxes unpaid continue to be collected by the Village Treasurer.

**NOTE 10 - SEGMENT INFORMATION**

The Village issues separate revenue bonds to finance its sewer department. The fund financial statements report major funds with revenue - supported debt for the sewer fund. Services provided by this fund are described in Note 1.

**NOTE 11 - RISK MANAGEMENT**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for each of these areas of risk. There have been no significant reductions in insurance coverages, and settled claims have not exceeded the amount of insurance coverage for the current or the three prior years.

VILLAGE OF NORTH ADAMS  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006

**NOTE 12 - UNEMPLOYMENT TAXES**

The Village is a reimbursing employer to the Michigan Unemployment Insurance Agency and, as such, is responsible to pay the Agency for those benefits paid and charged to its account. As of February 28, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

**NOTE 13 - RELATED PARTY TRANSACTIONS**

It should be noted that George Russ, a member of the Village Council, received \$21,176 for services rendered to the Village as a Streets and Wastewater System employee.

## REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF NORTH ADAMS  
SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006

	<u>Budget Amounts</u>		<u>Actual</u>	Actual Over (Under) <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Property Taxes	\$ 65,000	\$ 65,000	\$ 73,490	\$ 8,490
State Shared Revenue	50,000	50,000	50,889	889
Fire Service	55,000	55,000	32,699	(22,301)
Rents & Royalties	20,245	20,245	18,982	(1,263)
Interest	9,000	9,000	11,826	2,826
Miscellaneous	<u>4,100</u>	<u>4,100</u>	<u>2,704</u>	<u>(1,396)</u>
Total Revenue	<u>\$ 203,345</u>	<u>\$ 203,345</u>	<u>\$ 190,590</u>	<u>\$ (12,755)</u>
EXPENDITURES				
Village Council	\$ 5,500	\$ 5,500	\$ 4,600	\$ (900)
Clerk	4,200	4,200	4,200	0
Treasurer	2,800	2,800	2,800	0
Contracted Services	7,500	7,500	10,010	2,510
Buildings & Grounds	16,900	16,900	16,190	(710)
Office Supplies and Postage	4,000	4,000	1,988	(2,012)
Fire Department	16,800	16,800	10,802	(5,998)
Public Works	30,000	30,000	48,786	18,786
Street Lighting & Maintenance	20,000	20,000	20,517	517
Sanitary Landfill	5,500	5,500	3,057	(2,443)
Recreation & Culture	12,400	12,400	3,025	(9,375)
Elections	250	250	132	(118)
Payroll Tax Expense	7,500	7,500	4,706	(2,794)
Dues & Subscriptions	500	500	1,132	632
Insurance - Property	28,000	28,000	31,429	3,429
Insurance - Health & Life	19,000	19,000	14,267	(4,733)
Capital Outlay	8,700	8,700	0	(8,700)
Miscellaneous	<u>2,500</u>	<u>2,500</u>	<u>645</u>	<u>(1,855)</u>
Total Expenditures	<u>\$ 192,050</u>	<u>\$ 192,050</u>	<u>\$ 178,286</u>	<u>\$ (13,764)</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 11,295	\$ 11,295	\$ 12,304	\$ 1,009
FUND BALANCES - Beginning	<u>374,377</u>	<u>374,377</u>	<u>374,377</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 385,672</u>	<u>\$ 385,672</u>	<u>\$ 386,681</u>	<u>\$ 1,009</u>

The accompanying notes are an integral part of this statement.



VILLAGE OF NORTH ADAMS  
SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
MAJOR STREETS FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State Shared Revenue	\$ 34,000	\$ 34,000	\$ 32,495	\$ (1,505)
Interest	<u>500</u>	<u>500</u>	<u>171</u>	<u>(329)</u>
Total Revenue	<u>\$ 34,500</u>	<u>\$ 34,500</u>	<u>\$ 32,666</u>	<u>\$ (1,834)</u>
EXPENDITURES				
Routine Maintenance	\$ 15,000	\$ 15,000	\$ 4,988	\$ (10,012)
Winter Maintenance	<u>15,000</u>	<u>15,000</u>	<u>10,747</u>	<u>(4,253)</u>
Total Expenditures	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 15,735</u>	<u>\$ (14,265)</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 4,500	\$ 4,500	\$ 16,931	\$ 12,431
FUND BALANCES - Beginning	<u>3,151</u>	<u>3,151</u>	<u>3,151</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 7,651</u>	<u>\$ 7,651</u>	<u>\$ 20,082</u>	<u>\$ 12,431</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS  
SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
LOCAL STREETS FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006

	<u>Budget Amounts</u>			Actual Over (Under) <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUE				
State Shared Revenue	\$ 9,000	\$ 9,000	\$ 8,684	\$ (316)
Interest	<u>100</u>	<u>100</u>	<u>57</u>	<u>(43)</u>
Total Revenue	<u>\$ 9,100</u>	<u>\$ 9,100</u>	<u>\$ 8,741</u>	<u>\$ (359)</u>
EXPENDITURES				
Routine Maintenance	\$ 0	\$ 0	\$ 147	\$ 147
Winter Maintenance	<u>0</u>	<u>0</u>	<u>2,454</u>	<u>2,454</u>
Total Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,601</u>	<u>\$ 2,601</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 9,100	\$ 9,100	\$ 6,140	\$ (2,960)
FUND BALANCES - Beginning	<u>9,312</u>	<u>9,312</u>	<u>9,312</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 18,412</u>	<u>\$ 18,412</u>	<u>\$ 15,452</u>	<u>\$ (2,960)</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FEBRUARY 28, 2006

**NOTE 1 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Contracted Services	\$ 7,500	\$ 10,010	\$ 2,510
Public Works	30,000	48,786	18,786
Street Lighting & Maintenance	20,000	20,517	517
Dues and Subscriptions	500	1,132	632
Insurance - Property	28,000	31,429	3,429
Local Streets Fund			
Routine Maintenance	0	147	147
Winter Maintenance	0	2,454	2,454

# Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Village Council  
Village of North Adams  
North Adams, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund, of Village of North Adams as of and for the year ended February 28, 2006, which collectively comprise Village of North Adams's basic financial statements and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Village of North Adams's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the Village council in a separate letter dated September 8, 2006.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of North Adams's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Bailey, Hodshire & Company, P.C.*

Jonesville, Michigan  
September 8, 2006

Bailey, Hodshire  
& Company, P.C.  
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September 8, 2006

To the President  
Members of the Village Council  
Village of North Adams  
North Adams, MI 49262

As a result of our audit of the financial statements of Village of North Adams as of and for the year ended February 28, 2006, we would like to make the following comments and recommendations:

1. There are a few accounts that had expenditures in excess of budgeted amounts, which is a violation of State budgeting laws. Although the variances were not very large, we do recommend that all budgets be reviewed and amended as necessary to prevent over-expenditure in any line item.

If we can be of assistance regarding these recommendations, please contact our office.

Respectfully,

*Bailey, Hodshire & Company, P.C.*  
Bailey, Hodshire & Company, P.C.  
Certified Public Accountants